

## Message Text

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USADB

PASS TREASURY FOR D.R. SHERK/M.F. CROSS

E.O. 11652: NA  
TAGS: EAID, EFIN  
SUBJ: ACCOUNTABILITY OF IFIS AND CONGRESSIONAL OVERSIGHT HEARINGS

REF: (A) TREASURY 78-45, (B) TREASURY 78-49

FOLLOWING IS ADB'S RESPONSE TO QUESTIONS IN REFTEL A  
ACCOUNTABILITY OF IFIS:

I. WHAT ARE THE BORROWER'S REPORTING REQUIREMENTS? DOES  
THE BORROWER PROVIDE TO THE BANK INVOICES, PROOF OF DELIVERY,  
STATEMENTS OF QUALITY INSPECTIONS, OR OTHER DOCUMENTS TO  
SUBSTANTIATE DISBURSEMENTS?

RESPONSE:

A. REPORTING REQUIREMENTS

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1. GENERAL: THE BANK REQUIRES ALL BORROWERS  
TO SUBMIT A QUARTERLY REPORT CONTAINING INFORMATION RELATING  
TO PROJECT IMPLEMENTATION; PROGRESS OF PROCUREMENT,  
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EXPENDITURE, AND AWARDED OF CONTRACTS; PROJECTED WITH-  
DRAWAL SCHEDULES; ANTICIPATED DELAYS; ETC. DETAILS OF  
THE REPORTS ARE FINALIZED DURING LOAN NEGOTIATIONS  
ACCORDING TO PARTICULAR REQUIREMENTS OF EACH PROJECT.  
(THESE REPORTS AND FORMS BASICALLY COVER SIMILAR INFOR-  
MATION, THE DIFFERENCE BEING ONLY IN DETAILS.)

2. DFI LOANS: THE BANK REQUIRES DFIS TO REPORT, ON A QUARTERLY BASIS, DETAILS INCLUDING LOAN OPERATIONS, AVAILABILITY AND UTILIZATION OF RESOURCES, COMPOSITION OF PORTFOLIO, ARREARS, LOAN FOLLOW UP, PIPELINE OF PROJECTS AND IMPORTANT INSTITUTIONAL AND POLICY CHANGES. SUCH FORMS ARE EVOLVED AFTER DISCUSSIONS WITH CONCERNED DFIS WITH REGARD TO THEIR OPERATIONAL FEATURES. THE QUARTERLY REPORTS FROM DFIS HAVE, INTER ALIA, BRIEF INFORMATION ON SUBLOANS FINANCED UNDER BANK'S CREDIT LINES. HOWEVER, DETAILED INFORMATION ON EACH AND EVERY SUBLOAN IS NOT SOUGHT BECAUSE THEIR TOTAL NUMBER IS VERY LARGE AT MORE THAN 2,000 (MORE THAN 500 ADDED DURING 1977 ALONE). THE BANK ASKS DETAILED INFORMATION ON SUBPROJECTS WHICH ARE OF EXCEPTIONAL NATURE, E.G., LARGE PROJECTS, PROBLEM PROJECTS, ETC. THE OVERALL RESPONSIBILITY FOR SUPERVISION RESTS WITH THE DFI AND THE BANK'S APPRAISAL AND REVIEW MISSIONS GIVE SPECIAL ATTENTION TO EVALUATE THE DFI'S INSTITUTIONAL CAPABILITY TO PERFORM THIS FUNCTION SATISFACTORILY.

#### B. SUBSTANTIATION OF DISBURSEMENTS

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1. GENERAL: SUPPORTING EVIDENCE REQUIRED OF A BORROWER FOR SUBSTANTIATING WITHDRAWALS FROM THE LOAN ACCOUNT IS VARIED, DEPENDING ON WHICH OF THE THREE STANDARD DISBURSEMENT PROCEDURES OF THE BANK IS ADOPTED  
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BY THE BORROWER AND THE NATURE OF THE EVENT FOR WHICH PAYMENTS ARE REQUIRED. (SEE ADB BOOKLET "PROCEDURES FOR WITHDRAWALS OF PROCEEDS OF ADB LOANS" OF JULY 1977. COPIES POUCHED SHERK MARCH 30.) IN BRIEF THESE ARE AS FOLLOWS:

(A) UNDER REIMBURSEMENT PROCEDURE:

- (I) THE CONTRACT OR CONFIRMED PURCHASE ORDER,
- (II) EVIDENCE THAT THE PAYMENT HAS MADE, AND
- (III) (A) SUPPLIER'S INVOICE AND BILL OF LADING IN CASE OF SHIPMENT OF GOODS; OR  
(B) CONSULTANT'S INVOICE IN CASE OF CONSULTANCY SERVICES; OR  
(C) CONTRACTOR'S INVOICE AND BORROWER'S CERTIFICATE OF WORK PROGRESS IN CASE OF CIVIL WORKS.

(B) UNDER DIRECT PAYMENT PROCEDURE:

- (I) THE CONTRACT OR CONFIRMED PURCHASE ORDER, AND
- (II) (A) SUPPLIER'S INVOICE AND A BILL OF LADING IN CASE OF SHIPMENT OF GOODS; OR  
(B) CONSULTANT'S CLAIM IN CASE OF CON-

SULTANTS SERVICES; OR  
(C) CONTRACTOR'S CLAIM AND BORROWER'S  
CERTIFICATE OF WORK PROGRESS IN CASE  
OF CIVIL WORKS.

(C) UNDER COMMITMENT PROCEDURE (I.E., UNDER  
LETTER OF CREDIT);  
(I) THE CONTRACT OR CONFIRMED PURCHASE ORDER;  
(II) A LETTER OF CREDIT AGAINST WHICH BANK'S  
COMMITMENT IS SOUGHT; AND  
(III) NEGOTIATING BANK'S REPORT OF PAYMENT  
ACCOMPANIED BY SUPPLIER'S INVOICE.  
(FOR FURTHER DETAILS, PLEASE REFER TO SECTIONS

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3.3, 4.3, 5.6 AND PAGE 36 OF THE ABOVE-MENTIONED BOOKLET.)

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WHERE THERE IS NO SUCH SUPPORTING EVIDENCE  
READILY AVAILABLE (FOR INSTANCE PAYMENT OF WAGES TO WORKERS  
FROM A FORCE ACCOUNT) OR WHERE THE EVIDENCE IS TOO BULKY  
TO BE SENT TO THE BANK FOR RELATIVELY SMALL ACCOUNTS (FOR  
INSTANCE LOCAL PURCHASE OF NUMEROUS SEPARATE ITEMS), THE  
BANK HAS LATELY ALLOWED BORROWERS TO SUBSTANTIATE THEIR  
WITHDRAWAL REQUEST WITH THEIR CERTIFICATION ONLY, PROVIDED  
THAT THE EVIDENCE SHOULD ALWAYS BE KEPT READY FOR

INSPECTION BY THE BANK'S FIELD MISSIONS. THE AMOUNT DISBURSED THROUGH THIS EXCEPTIONAL PROCEDURE IS ABOUT 0.1 PERCENT OF THE TOTAL DISBURSEMENT ON A CUMULATIVE BASIS.

2. DFI LOANS: THERE IS NO DIFFERENCE IN THIS RESPECT BETWEEN PROJECT LOANS AND SUBLOANS FINANCED BY DFIS FROM BANK LOANS.

II. DOES THE BANK PAY THE SUPPLIERS DIRECTLY, DOES IT REIMBURSE BORROWERS FOR DIRECT PAYMENTS TO SUPPLIERS, OR DOES IT USE A COMBINATION OF BOTH?

RESPONSE:

A. GENERAL: AS ALREADY MENTIONED, THERE ARE THREE STANDARD PROCEDURES FOR WITHDRAWALS:  
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(I) RIMBURSEMENT PROCEDURE - WHERE THE BANK REIMBURSES BORROWERS IN RESPECT OF PAYMENTS ALREADY MADE BY THEM.

(II) DIRECT PAYMENT PROCEDURE - WHERE THE BANK MAKES PAYMENTS DIRECTLY TO SUPPLIERS, CONSULTANTS AND/OR CIVIL WORK CONTRACTORS.

(III) COMMITMENT PROCEDURE - WHERE THE BANK ISSUES COMMITMENT LETTERS TO COMMERCIAL BANKS IN RESPECT OF LETTERS OF CREDIT AND AFTER NEGOTIATION OF SHIPPING DOCUMENTS THE BANK PAYS DIRECTLY TO COMMERCIAL BANKS CONCERNED.

USE OF THE ABOVE PROCEDURES DEPENDS UPON THE CIRCUMSTANCES AND BORROWER'S REQUIREMENTS. THE BANK DOES NOT MAINTAIN THE RECORDS TO SHOW WHICH PROCEDURE HAS BEEN ADOPTED AND IN WHAT PROPORTION, BUT SAMPLE CHECKING REVEALS THAT IN TERMS OF AMOUNT, ROUGHLY 55 PERCENT OF TOTAL DISBURSEMENTS ARE MADE THROUGH THE COMMITMENT PROCEDURE, 24 PERCENT THROUGH REIMBURSEMENT PROCEDURE, AND 21 PERCENT THROUGH DIRECT PAYMENT PROCEDURE.

B. DFI LOANS: THERE IS NO DIFFERENCE IN THIS RESPECT BETWEEN PROJECT LOANS AND DFI LOANS.

III. DOES ADB REQUIRE AUDITS OF BORROWERS BY INDEPENDENT AUDITORS WHICH IT HAS APPROVED? IF SO, COULD THEY BE MADE AVAILABLE TO THE CONGRESS AND TO THE PUBLIC?

RESPONSE:

A. GENERAL: IN MOST CASES, ESPECIALLY WITH RESPECT

TO INDEPENDENT PUBLIC ENTITIES (E.G., WATER SUPPLY BOARDS,  
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POWER AUTHORITIES, ETC.) THE BANK REQUIRES THAT THEIR  
ACCOUNTS AND FINANCIAL STATEMENTS BE AUDITED ANNUALLY IN  
ACCORDANCE WITH SOUND AUDITING PRINCIPLES BY AUDITORS  
ACCEPTABLE TO THE BANK. IN SOME OF THESE CASES, AN AUDIT  
MADE BY THE GOVERNMENT'S AUDITING AGENCY, WHICH IS INDE-  
PENDENT OF THE EXECUTING AGENCY, IS ACCEPTED BY THE BANK  
PROVIDED IT IS CONSIDERED SATISFACTORY TO THE BANK.

THE DETAILED AUDIT REPORTS IN RESPECT OF BANK  
BORROWERS ARE CLIENT CONFIDENTIALS AND ARE NOT AVAILABLE  
FOR PUBLIC USE, EXCEPT IN THE FORM AS CONTAINED IN  
PUBLISHED FINANCIAL STATEMENTS WHEREVER AVAILABLE.

B. DFI LOANS: DFIS ARE REQUIRED INVARIABLY BY  
THE BANK TO HAVE THEIR ACCOUNTS AUDITED ANNUALLY BY  
INDEPENDENT AUDITORS ACCEPTABLE TO THE BANK AND TO  
SUBMIT THE AUDIT REPORTS TO THE BANK. THE BANK REQUIRES  
THAT THE AUDITS BE CARRIED OUT IN ACCORDANCE WITH GUIDE-  
LINES FOR THE AUDIT OF DEVELOPMENT FINANCE COMPANIES  
(DFCS) WHICH WERE PUBLISHED BY THE WORLD BANK IN 1973.  
THE AUDITORS ARE GENERALLY PRIVATE INDEPENDENT AUDITORS,  
BUT IN A FEW CASES (ONLY TWO SO FAR) THE BANK HAS ACCEPTED  
THE GOVERNMENT'S INDEPENDENT AUDITING AGENCY AS THE  
AUDITORS FOR THE DFI BUT THEIR REPORT HAS TO MEET THE  
ABOVEMENTIONED GUIDELINES.

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AUDIT OF SUBBORROWERS IS NORMALLY DELEGATED BY THE BANK TO THE DFIS AND THE STANDARD SUBLOAN AGREEMENTS EXECUTED BETWEEN DFIS AND SUBBORROWERS NORMALLY INCLUDE A PROVISION REQUIRING AUDIT OF THE SUBBORROWERS' ACCOUNTS BY AN INDEPENDENT AUDITOR ACCEPTABLE TO THE DFIS AND FOR SUBMISSION OF THE AUDIT REPORT TO THE DFI ON A REGULAR BASIS.

IV. IS THERE, IN ADDITION, AN INDEPENDENT AUDIT OF INDIVIDUAL PROJECTS (APART FROM THE BANK'S OWN EVALUATION)? IS THERE SOME PROCEDURE THAT IS OR COULD BE ENTITLED AS AN "END USE CHECK"?

RESPONSE:

A. GENERAL: BESIDE THE AUDIT REQUIREMENTS, DISCUSSED IN THE ANSWER TO QUESTION III, THE BANK REQUIRES THE BORROWER OR ITS EXECUTING AGENCY TO MAINTAIN INDIVIDUAL PROJECT ACCOUNTS AND GET THESE AUDITED ANNUALLY BY AUDITORS ACCEPTABLE TO THE BANK AND TO FURNISH THEIR AUDIT REPORTS TO THE BANK. POST-EVALUATION OF CERTAIN COMPLETED PROJECTS IS CARRIED OUT BY BANK STAFF, BUT INDEPENDENTLY OF THE PROJECTS AND OPERATIONS DEPARTMENTS AND THE POST-EVALUATION REPORT SUBMITTED DIRECTLY TO BANK MANAGEMENT AND SUBSEQUENTLY TO THE BOARD AS PER BANK UNCLASSIFIED

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POLICY. (SEE POST EVALUATION OF ADB PROJECTS: A PROGRAM FOR ACTION, ADB DOC. NO. R28-74, REVISION 2, FINAL, DATED 8 AUGUST 1975. COPIES BEING POUCHED, APRIL 3.) IN ADDITION, SOME PROJECTS ARE SELECTED FOR POST-EVALUATION BY REPUTABLE ACADEMIC OR NON-PROFIT MAKING ORGANIZATIONS OR INSTITUTIONS IN A FULLY INDEPENDENT MANNER. THE REPORTS OF THE EVALUATING AGENCIES ARE ADDRESSED TO THE CHAIRMAN OF THE BOARD OF DIRECTORS (IN THE SAME MANNER AS REPORTS OF EXTERNAL AUDITORS OF THE BANK) AND TREATED AS CONFIDENTIAL DOCUMENTS. THE PROJECT EXECUTING AGENCY HAS NO RIGHT TO ITS USE EXCEPT AS PERMITTED BY THE BANK WITH THE APPROVAL OF THE BORROWER.

B. DFI LOANS: THE NUMBER OF SUBPROJECTS FINANCED UNDER BANK LOANS TO DFIS EXCEEDS 2,000 AND IS INCREASING RAPIDLY. IT IS NOT PRACTICABLE FOR THE BANK TO SUPERVISE DIRECTLY THE AUDIT OF SUCH A LARGE NUMBER OF SUBPROJECTS. THE AUDIT OF SUBPROJECTS IS THEREFORE DELEGATED BY THE BANK TO THE DFIS AND STANDARD SUBLOAN AGREEMENTS EXECUTED BETWEEN DFIS AND SUBBORROWERS NORMALLY INCLUDE A PROVISION REQUIRING AUDIT OF THE SUBPROJECT'S ACCOUNTS BY

AN INDEPENDENT AUDITOR ACCEPTABLE TO THE DFI AND SUB-MISSION OF THE AUDIT REPORT TO THE DFI ON A REGULAR BASIS. HOWEVER SUCH AUDIT WOULD NOT BE APPLICABLE TO VERY SMALL SUBPROJECTS, PARTICULARLY THOSE BEING FINANCED BY DFIS IN THE SOUTH PACIFIC. IN ADDITION, BANK END-USE SUPERVISION MISSIONS OR REPEAT APPRAISAL TO DFIS CARRY OUT A SAMPLE CHECK BY VISITING SUBPROJECTS WHICH ARE CAREFULLY SELECTED TO VERIFY THAT THE BANK'S FUNDS ARE BEING ONLENT BY DFIS AND UTILIZED BY SUB-BORROWERS IN A SATISFACTORY MANNER.

V. HOW DOES THE ADB MAKE SURE THAT WHERE LOANS ARE AIMED  
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AT THE "POOR," THAT THEY ACTUALLY BENEFIT?

RESPONSE:

A. GENERAL: 1. WHEN THE BANK APPROVES A LOAN FOR THE PURPOSE OF BENEFITING THE POOR, APPROPRIATE SAFEGUARDS WOULD HAVE ALREADY BEEN BUILT INTO THE PARTICULAR PROJECT TO ENSURE THAT THE POOR WILL ACTUALLY RECEIVE THE BENEFITS. ALTHOUGH DIFFERENT PROJECTS, EXECUTING AGENCIES, AND BORROWING COUNTRIES WILL REQUIRE DIFFERENT SETS OF SPECIFIC SAFEGUARDS, THE FOLLOWING SAFEGUARDS ARE INCLUDED IN ALL BANK LOANS TO MAKE SURE THAT THE PURPOSES FOR WHICH THE LOANS ARE MADE WILL BE ACHIEVED: (A) PROJECT DESIGN, (B) LOAN COVENANTS, (C) MONITORING OF PROJECT, AND (D) POST-EVALUATION OF PROJECT.

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2. PROJECT DESIGN: LOANS MADE BY THE BANK ARE FOR SPECIFIC PURPOSES. THESE PURPOSES ARE GIVEN EXPLICIT EXPRESSION IN THE VARIOUS COMPONENTS INCLUDED IN THE PROJECTS DURING THEIR DESIGN AND FORMULATION. A PROJECT MAY BE DESIGNED TO BRING SOCIO-ECONOMIC DEVELOPMENT TO A DEPRESSED OR UNDEVELOPED REGION IN A COUNTRY (E.G., THE CHITTAGONG HILL TRACTS DEVELOPMENT PROJECT IN BANGLADESH AND THE SOUTHEAST SULAWESI TRANSMIGRATION AREA DEVELOPMENT PROJECT IN INDONESIA). IT MAY BE DESIGNED TO CREATE MAXIMUM NUMBER OF JOB OPPORTUNITIES FOR THE POOR, WHO ARE OFTEN UNSKILLED AND ARE EITHER UNEMPLOYED OR UNDER-EMPLOYED, THROUGH THE USE OF LABOR-INTENSIVE METHODS IN PROJECT CONSTRUCTION (E.G., THE IMPLEMENTATION OF FOUR ROAD PROJECTS IN BANGLADESH, INDONESIA, KOREA, AND THE PHILIPPINES, IS EXPECTED TO INVOLVE 216,000 MAN-MONTHS OF UNSKILLED LABOR). IN THE INTEGRATED RURAL DEVELOPMENT PROJECTS FINANCED BY BANK LOANS, SUCH SOCIAL COMPONENTS AS THE PROVISION OF POTABLE WATER, HEALTH AND EDUCATION FACILITIES, AND THE CONSTRUCTION OF VILLAGE ROADS ARE INCLUDED (E.G., THE SERAJONG INTEGRATED RURAL DEVELOPMENT PROJECT IN BANGLADESH PROVIDES NOT ONLY THE CONVENTIONAL IRRIGATION FACILITIES BUT ALSO PILOT SCHEMES FOR RURAL INDUSTRIALIZATION, EDUCATION, THE MOBILIZATION OF RURAL YOUTH AND WOMEN IN

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SELECTED ECONOMIC ACTIVITIES, AND FACILITIES FOR FAMILY PLANNING). HENCE, PROPER PROJECT DESIGN IS OF PRIMARY IMPORTANCE IN ENSURING THAT LOANS MADE BY THE BANK WILL ACTUALLY BENEFIT THE POOR.

3. LOAN COVENANTS: TO ENSURE THAT MEASURES NECESSARY FOR THE ACHIEVEMENT OF THE PURPOSES FOR WHICH BANK LOANS ARE MADE WILL BE TAKEN BY THE BORROWERS, SPECIAL COVENANTS ARE INCLUDED IN THE LOAN AGREEMENTS. FOR INSTANCE, COVENANTS GOVERNING LAND REFORM PROGRAMS HAVE BEEN INCLUDED IN A NUMBER OF LOANS IN THE AGRICULTURE SECTOR. TO CITE ONLY TWO EXAMPLES, IN THE GAWARGAN CHARDARRAH AGRICULTURAL DEVELOPMENT PROJECT IN AFGHANISTAN, THE BANK HAS REQUIRED THAT FUTURE CONTRACTS ON SHARE-CROPPING AND TENANCY ARRANGEMENTS SHOULD BE IN THE INTEREST OF SMALL FARMERS AND SHOULD PROVIDE INCENTIVES FOR CULTIVATION; AND IN THE PULANGUI RIVER IRRIGATION PROJECT IN THE PHILIPPINES, THE BANK HAS RECEIVED ASSURANCE FROM THE GOVERNMENT THAT ALL TENANTS AND SHARE-CROPPERS IN THE PROJECT AREA WOULD BECOME OWNERS OF THE LAND THEY TILL BY A SPECIFIED DATE, WHILE OTHERS BECOME LEASEHOLDERS



AND HAVE A FIXED RENTAL AND SECURITY OF TENURE.

4. ANOTHER SUBJECT OF LOAN COVENANTS IS THE FIXING OF FAIR PRICES BY THE GOVERNMENTS FOR AGRICULTURAL PRODUCE AND SOME OTHER COMMODITIES IN ORDER TO PROVIDE INCENTIVES FOR THE EXPANSION OF PRODUCTION AND TO RAISE THE INCOMES OF THE POOR. FOR EXAMPLE, IN THE KIRINDI-OYA IRRIGATION PROJECT IN SRI LANKA, ALL COTTON PRODUCES IN THE PROJECT AREA WILL BE BOUGHT BY THE NATIONAL TEXTILE CORPORATION AT A GUARANTEED PRICE.

5. MONITORING OF PROJECT: CLOSE MONITORING OF  
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PROJECT IMPLEMENTATION BY THE BANK IS ESSENTIAL TO ENSURE THAT ANY BANK-FINANCED PROJECT IS BEING CARRIED OUT IN A MANNER THAT DOES NOT DEFLECT FROM ITS DESIGNED PURPOSES OF BENEFITING THE POOR. THE BANK'S LOAN AGREEMENTS INVARIABLY REQUIRE THE BORROWERS OR THEIR EXECUTING AGENCIES TO SUBMIT TO THE BANK PERIODICALLY REPORTS ON PROGRESS OF PROJECT IMPLEMENTATION. WHERE ASSISTANCE IS NEEDED BY SOME BORROWERS OR THEIR EXECUTING AGENCIES TO CARRY OUT THE PROJECTS EFFECTIVELY, THE SERVICES OF CONSULTANTS MAY BE FINANCED OUT OF THE LOAN PROCEEDS AND THESE CONSULTANTS MAY BE REQUIRED TO HELP SUPERVISE PROJECT IMPLEMENTATION AND TO PREPARE PROGRESS REPORTS. ON THE BASIS OF THESE REPORTS, THE BANK WILL BE ENABLED TO FOLLOW THE PROGRESS OF PROJECT IMPLEMENTATION THROUGH ALL ITS STAGES, AND TO TAKE THE NECESSARY REMEDIAL ACTIONS IN THE EVENT DEVIATIONS FROM THE AGREED PURPOSES OF THE PROJECTS OCCUR. SUPPLEMENTING THESE

PROGRESS REPORTS IN THE MONITORING OF PROJECTS, THE BANK AS A RULE DISPATCHES REGULAR REVIEW MISSIONS TO THE PROJECT SITES FOR OCULAR INSPECTIONS AND TO DISCUSS WITH THE BORROWERS OR PROJECT EXECUTING AGENCIES VARIOUS MATTERS THAT MIGHT ADVERSELY AFFECT THE PROJECT. OTHER TYPES OF BANK MISSIONS (E.G., THOSE FOR PROJECT IDENTIFICATION, FACT-FINDING, AND APPRAISAL) MAY ALSO TAKE UP MATTERS WITH THE GOVERNMENT AND EXECUTING AGENCIES SHOULD THERE BE INDICATIONS THAT BENEFITS INTENDED FOR THE POOR MIGHT NOT REACH THEM.

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6. POST-EVALUATION: POST EVALUATION STUDIES ARE CONDUCTED BY THE BANK AFTER THE COMPLETION OF BANK-FINANCED PROJECTS. THE FINDINGS OF THESE STUDIES ARE DISCUSSED WITH THE AUTHORITIES IN THE COUNTRIES CONCERNED. SUCH STUDIES YIELD VALUABLE LESSONS WHICH SOMETIMES SUGGEST THE NEED FOR A MODIFICATION OF EXISTING POLICIES IN ORDER THAT THE BENEFITS OF SIMILAR PROJECTS MAY IN THE FUTURE REACH THE POOR MORE DIRECTLY. FOR EXAMPLE, THE FINDINGS OF THE POST-EVALUATION OF THE TAJUM IRRIGATION PROJECT IN INDONESIA ARE PARTLY RESPONSIBLE FOR THE ADOPTION BY THE INDONESIAN GOVERNMENT OF A POLICY RELATING TO THE GOVERNMENT'S ROLE IN, AND ITS SUBSIDIZATION OF, FARM-LEVEL OR TERTIARY CANAL DEVELOPMENT IN IRRIGATION SCHEMES. (EARLIER, SUCH DEVELOPMENT HAD BEEN THE RESPONSIBILITY OF INDIVIDUAL BENEFICIARY FARMERS.) THE AWARENESS THAT LOANS WILL HAVE TO BE POST-EVALUATED WOULD PERSUADE THE BORROWERS TO SEE TO IT THAT BENEFITS INTENDED FOR THE POOR WILL ACTUALLY REACH THEM.

7. OTHER MEANS: THE BANK CAN ALSO IMPROVE THE DELIVERY TO THE POOR OF BENEFITS GENERATED FROM ITS LOANS BY ENHANCING THE CAPABILITY AND EFFICIENCY OF THE PROJECT EXECUTING AGENCIES AND OTHER RELATED GOVERNMENT AUTHORITIES. IT CAN DO THIS THROUGH  
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THE PROVISION OF TECHNICAL ASSISTANCE FOR PROJECT PREPARATION, SPECIAL ADVISORY SERVICES, INSTITUTION-BUILDING, AS WELL AS PROJECT IMPLEMENTATION MENTIONED ABOVE.

B. DFI LOANS: DFI LOANS ARE NOT DIRECTLY AND SPECIFICALLY "AIMED" AT THE POOR AS EVEN THE SMALLEST

SUBBORROWER WOULD BE A SMALL-SCALE ENTREPRENEUR WHO IS NOT "POOR" IN THE SOCIO'ECONOMIC MEANING OF THIS WORD. EVEN SO, DFI LOANS BENEFIT THE POOR BY CREATION OF NEW JOB OPPORTUNITIES AND INCREASED PRODUCTION OF GOODS FOR MASS CONSUMPTION. THE DIRECT BENEFITS TO THE POOR WILL BE THE PROPORTION OF THE ADDITIONAL JOB OPPORTUNITIES CREATED, THAT WILL BE REQUIRING NON-SUPERVISORY SKILLS, BASICALLY FOR SEMI-SKILLED AND UNSKILLED WORKERS. IN ADDITION TO THE DIRECT BENEFITS ACCRUING THROUGH EMPLOYMENT GENERATION, THE BANK REQUIRES DFIS TO UNDERTAKE DEVELOPMENTAL AND PROMOTIONAL ACTIVITIES AND AMONG THESE, MEASURES TO BENEFIT INDIRECTLY BOTH URBAN AND RURAL POOR ARE SPECIFICALLY CONTEMPLATED. FOR EXAMPLE, THE BANK HAS ASKED DFIS TO GIVE PRIORITY TO ASSISTANCE TO LABOR-INTENSIVE INDUSTRIES, DEVELOPMENT OF BACKWARD AREAS WHICH GENERALLY HAVE A LARGER "POOR" POPULATION, AND DEVELOPMENT OF SMALL-SCALE INDUSTRY. THIS IS ACHIEVED THROUGH: (I) STIPULATING NECESSARY LOAN COVENANTS; (II) PROVISIONS IN POLICY STATEMENTS OF DFIS; AND (III) COVERAGE OF SPECIFIC OBJECTIVES IN DEVELOPMENT STRATEGIES OF DFIS.

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**Previous Classification:** n/a  
**Previous Handling Restrictions:** n/a  
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**Review Markings:**  
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